

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON 25, D.C.



REPLY TO
ATTN OF:

SUBJECT:

TO:

OSA-0872-62
#1023

REPLY TO:
Auditor General
Comptroller, USAF
Eastern District
Liaison Office
P.O. Box 8155
S.W. Station
Washington, D.C.

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25X1A

20 August 1962

SUBJECT: Report on Determination of Final Overhead Rate

[Redacted Box]

Period: Fiscal Year Ended 30 June 1962

TO : Contracting Officer

1. Review of the contractor's books and records has been made by the auditor for the fiscal year ended 30 June 1962 and the results thereof are set forth in this report. Audit procedures were carried out in a manner consistent with generally accepted procedures and in accordance with applicable Government regulations. Items of indirect expense were selectively tested to the extent deemed appropriate by the auditor. Direct labor was verified by reference to the job cost ledger and also to the payroll distribution record.

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2. The overhead rate for fiscal 1962 recommended for acceptance by the auditor is [Redacted Box] to be applied to direct labor dollars. The rate was computed as follows:

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Total Indirect Expenses
Total Direct Labor
Overhead Expense Rate

[Redacted Box]

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3. There are approximately three items of indirect expense which account for the sharp increase in the overhead rate over the fiscal 1961 rate of [Redacted Box] (a) an increase in administrative expense, (b) the initiation of a Pension Plan and (c) the depreciation charges for the current fiscal period. The contractor elected at the close of fiscal 1961 to compute depreciation on a "Sum of the Years Digits" method wherein the depreciation charges are greater in the early years of acquisition and repair and maintenance charges and minimal. All depreciable assets of the contractor have been treated in this manner.

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25X1A 4. The auditor has attached herewith a listing of the fiscal 1962 overhead expenses and the related direct labor base. It may be of interest to the Contracting Officer that, of the total indirect expenses, two items, namely, administrative salaries and depreciation, account for more than half of the overhead expense. Of the overhead rate of [] administrative salaries represent [] and depreciation changes aggregate [] in relation to the direct labor bases.

25X1A 5. The auditor's findings have been discussed with [] who is in agreement therewith. [] has requested that he be allowed some additional time to compute a projected provisional overhead rate for the fiscal year 1963.

W. F. Edwards

W. F. EDWARDS
Audit Liaison Officer
Eastern District
Auditor General



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to submit comments 8/27/62